

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Arenac County Road Commission	County Arenac
Fiscal Year End December 31, 2007	Opinion Date May 5, 2008	Date Audit Report Submitted to State May 12, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

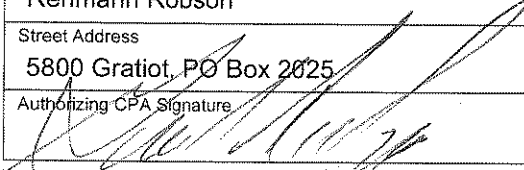
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number (989) 799-9580	
Street Address 5800 Gratiot, PO Box 2025		City Saginaw	State MI
Zip 48605			
Authorizing CPA Signature 	Printed Name Gerald J. Desloover		License Number 1101007126

Arenac County Road Commission
(A Component Unit of Arenac County)

Omer, Michigan

Financial Statements

For the Year Ended December 31, 2007



ARENAC COUNTY ROAD COMMISSION
(A Component Unit of Arenac County)

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements for the Year Ended December 31, 2007	
Statement of Net Assets and General Fund Balance Sheet	10
Reconciliation of General Fund Balance Sheet to Statement of Net Assets	11
Statement of Activities and General Fund Revenues, Expenditures and Changes in Fund Balance	12
Reconciliation of the General Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	13
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	14-15
Notes to Financial Statements	16-27
Operating Fund Schedules	
General Operating Fund – Schedule of Revenues by Component	28
General Operating Fund – Schedule of Expenditures by Component	29
General Operating Fund – Schedule of Changes in Fund Balance	30



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

May 5, 2008

Members of the Board of County
Road Commissioners
County of Arenac, Michigan
Omer, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the **Arenac County Road Commission**, a component unit of Arenac County, Michigan, as of and for the year ended December 31, 2007, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Arenac County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the **Arenac County Road Commission** as of December 31, 2007, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of

inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **Arenac County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohorn". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Arenac County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2007. The annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and an additional section that presents the operating fund broken down between primary, local and county road funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities-this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on the general fund, reporting the operations in more detail than the government-wide statements.

Note that Arenac County government-wide financial statements are not herein presented because the Road Commission is a component unit of the county. The county presents their financial statements elsewhere and in a manner partially resembling private-sector business in its government-wide financial statements in compliance with GASB Statement No. 34.

Government-wide Statements

The *statement of net assets* presents information on all of the Road Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the Road Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the

underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The component unit financial statements are principally supported by state shared revenues (operating grants). The governmental activities of the Road Commission include providing construction, repair, maintenance, and snow removal of roads within Arenac County.

The government-wide financial statements include only the Road Commission itself (known as the *Primary government*). The Road Commission has no legally separate component units for which the Road Commission is financial accountable. In this report, financial information for the Road Commission is reported separately from the financial information presented for Arenac County which reports the Road Commission as a component unit.

The government-wide financial statements can be found on pages 10 and 12 of this report.

Fund financial statements. A *fund* is grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Road Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Road Commission is accounted for in a governmental fund (General Fund).

Governmental funds. *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Road Commission maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Road Commission. The general fund is a major fund for financial reporting purposes as defined by GASB Statement #34.

The Road Commission adopts an annual appropriated budget for its fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund can be found on pages 14 through 15 of this report.

The Road Commission does not maintain proprietary nor fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Road Commission's financial statements. The notes to the financial statements can be found on pages 16 through 25 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

Government-wide Financial Analysis

The Road Commission's net assets increased approximately 27% or \$1,694,864, from \$6,138,648 to \$7,833,512 for the year ended December 31, 2007. The net assets and change in net assets are summarized below.

Arenac County Road Commission Net Assets:

	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 1,538,970	\$ 1,234,387
Capital assets	<u>6,798,661</u>	<u>5,362,356</u>
Total assets	<u>8,337,631</u>	<u>6,596,743</u>
Current and other liabilities	449,317	411,805
Long-term liabilities outstanding	<u>54,802</u>	<u>46,290</u>
Total liabilities	<u>504,119</u>	<u>458,095</u>
Net assets;		
Invested in capital assets,		
net of related debt	6,798,661	5,362,356
Unrestricted	<u>1,034,851</u>	<u>776,292</u>
Total net assets	<u>\$ 7,833,512</u>	<u>\$ 6,138,648</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Arenac County Road Commission, assets exceeded liabilities by \$7,833,512 at the close of the most recent fiscal year.

The largest portion of the Arenac County Road Commission's net assets reflects its investment in capital assets (e.g., land, infrastructure, buildings, machinery and equipment).

Governmental Activities

A summary of changes in net assets for the years ended December 31, 2007 and 2006, follows:

	<u>December 31</u> <u>2007</u>	<u>December 31</u> <u>2006</u>
Program revenue		
Charges for services	\$ 1,215,698	\$ 1,195,330
Operating grants and contributions		
State transportation funds	2,422,890	2,444,030
Capital grants and contributions		
Federal and state sources	1,434,565	186,917
General revenue		
Interest and rents	13,184	16,419
Gain on equipment disposal	<u>17,311</u>	<u>-</u>
Total revenue	5,103,648	3,842,696
Expenses		
Public works	<u>3,408,784</u>	<u>3,214,851</u>
Increase (decrease) in net assets	<u>\$ 1,694,864</u>	<u>\$ 627,845</u>

Governmental activities increased the Arenac County Road Commission's net assets by \$1,694,157. The key elements of this increase are as follows:

- Grant and contribution revenue is expended by the Road Commission for construction and maintenance of roads. Under the full accrual method of accounting these amounts are capitalized as infrastructure additions, therefore, the revenue is not offset by capital expenses, causing a significant increase in net assets. In the current year, Federal revenue significantly increased because of the funding received for the Maple Ridge Road project.

A summary of changes on the Operating fund is as follows:

	For the year ended December 31, 2007				Actual for the Year Ended December 31 2006
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	
Revenue					
Permits and licenses	\$ -	\$ -	\$ 7,805	\$ 7,805	\$ 7,713
Federal sources	2,213,527	1,437,485	1,434,565	(2,920)	186,917
State sources	2,574,550	2,514,387	2,422,890	(91,497)	2,444,030
Contributions	470,073	229,283	271,707	42,424	385,942
Charges for services	618,841	913,027	936,186	23,159	801,675
Interest and rentals	-	-	13,184	13,184	16,419
Other revenue	<u>31,000</u>	<u>95,906</u>	<u>17,311</u>	<u>(78,595)</u>	<u>-</u>
Total revenue	<u>5,907,991</u>	<u>5,190,088</u>	<u>5,103,648</u>	<u>(86,440)</u>	<u>3,842,696</u>
Expenditures					
Primary road maintenance	3,375,550	2,549,145	2,465,920	83,225	1,325,251
Local road maintenance	1,733,413	1,253,712	1,285,011	(31,299)	1,534,486
State trunkline maintenance	618,841	683,667	715,927	(32,260)	611,614
State trunkline non-maintenance	-	229,360	241,998	(12,638)	146,737
Equipment expense (net)	-	-	(6,021)	6,021	113,833
Administrative expense (net)	330,908	303,810	268,271	35,539	320,359
Interest expense	-	-	3,242	(3,242)	-
Capital outlay (net)	(159,250)	(115,655)	(185,446)	69,791	(170,076)
Other	<u>15,000</u>	<u>40,000</u>	<u>47,675</u>	<u>(7,675)</u>	<u>21,146</u>
Total expenditures	<u>5,914,462</u>	<u>4,944,039</u>	<u>4,836,577</u>	<u>107,462</u>	<u>3,903,350</u>
Net change in fund balance	(6,471)	246,049	267,071	21,022	(60,654)
Fund balances, beginning of year	<u>822,582</u>	<u>822,582</u>	<u>822,582</u>	<u>-</u>	<u>883,236</u>
Fund balances, end of year	<u>\$ 816,111</u>	<u>\$ 1,068,631</u>	<u>\$ 1,089,653</u>	<u>\$ 21,022</u>	<u>\$ 822,582</u>

General Fund Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the Board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2007 was \$717,903 lower than the original budget primarily due to the Federal sources. The actual revenue recognized during 2007 was less than the final amended budget by \$86,440.

The final amended expenditure budget for 2007 was \$970,423 less than the original budget due to a decrease in primary road maintenance as a result of less Federal projects than expected. The actual expenditures recognized during 2007 were less than the final amended budget by \$107,462. There was an unfavorable variance in the local road maintenance, state trunkline maintenance, state trunkline non-maintenance, interest expense, and other expenditure line items.

Capital Assets

As of December 31, 2007, the Arenac County Road Commission had invested \$6,797,954 in capital assets. This amount represents a net increase (including additions and deductions) of \$1,435,598 for 26% as follows:

	<u>Balance December 31,</u>		
	<u>2007</u>	<u>2006</u>	
Capital assets not being depreciated			
Land and improvements	\$ 9,200	\$ 9,200	0.00%
Construction in progress	<u>55,422</u>	<u>75,333</u>	-26.0%
Subtotal	<u>64,622</u>	<u>84,533</u>	-23.0%
Capital assets being depreciated			
Buildings	380,683	380,683	0.00%
Equipment	3,569,663	3,562,925	0.01%
Infrastructure	<u>7,404,265</u>	<u>5,292,616</u>	39.8%
Subtotal	<u>11,354,611</u>	<u>9,236,224</u>	22.9%
Total capital assets	11,419,233	9,320,757	22.5%
Total accumulated depreciation	<u>(4,620,572)</u>	<u>(3,958,401)</u>	16.7%
Total net capital assets	<u>\$6,798,661</u>	<u>\$5,362,356</u>	26.7%

Major capital asset events during the current fiscal year included the following:

Various Resurfacing	\$2,111,649
Construction in progress	28,089
Equipment	<u>29,420</u>
Total Additions	<u>\$2,169,158</u>

Additional information on the Road Commission's capital assets can be found in note III.B. on page 23.

Long-term debt

At year-end, the Arenac County Road Commission had no notes, bonds or installment purchase agreements. The balance of the Road Commission's long-term obligations include accrued vacation and sick pay leave. More detailed information about the Road Commission's long-term liabilities is presented in Note III. C. to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Road Commission's budget for the 2008 fiscal year:

- According to the Michigan Department of Transportation estimates, the transportation fund is expected to decrease by 4%, due mainly to increased gasoline prices resulting in decreased usage.

Requests for Information

This financial report is designed to provide a general overview of the Road Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Clerk, Arenac County Road Commission, 116, Bridge Street, Omer, Michigan 48749.

BASIC FINANCIAL STATEMENTS

ARENAC COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET
DECEMBER 31, 2007

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS			
Cash	\$ 44,393	\$ -	\$ 44,393
Investments	534,476	-	534,476
Accounts receivable			
Michigan transportation fund	376,369	-	376,369
State trunkline maintenance	95,115	-	95,115
Due on county road agreements	17,338	-	17,338
Sundry accounts receivable	32,128	-	32,128
Interest	920	-	920
Inventories			
Equipment material and parts	106,560	-	106,560
Road materials	261,050	-	261,050
Prepaid insurance	70,621	-	70,621
Capital assets			
Land and improvements	-	9,200	9,200
Construction in progress	-	55,422	55,422
Property and equipment - net of accumulated depreciation	-	490,206	490,206
Infrastructure - net of accumulated depreciation	-	6,243,833	6,243,833
Total assets	<u>\$ 1,538,970</u>	<u>6,798,661</u>	<u>8,337,631</u>
LIABILITIES			
Accounts payable	\$ 138,746	-	\$ 138,746
Accrued liabilities	48,834	-	48,834
Advances			
State trunkline equipment purchase	112,491	-	112,491
State trunkline maintenance	58,491	-	58,491
Deferred/unearned revenue	90,755	-	90,755
Long-term liabilities			
Due within one year	-	2,792	2,792
Due after one year	-	52,010	52,010
Total liabilities	<u>449,317</u>	<u>54,802</u>	<u>504,119</u>
Fund Balance/Net Assets			
Fund balance			
Reserved for inventory	367,610	(367,610)	-
Unreserved, undesignated	722,043	(722,043)	-
Total fund balance	<u>1,089,653</u>	<u>(1,089,653)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 1,538,970</u>		
Net Assets:			
Invested in capital assets		6,798,661	6,798,661
Unrestricted		1,034,851	1,034,851
Total net assets		<u>\$ 7,833,512</u>	<u>\$ 7,833,512</u>

The accompanying notes are an integral part of these financial statements.

ARENAC COUNTY ROAD COMMISSION
Reconciliation of General Fund Balance Sheet
to Statement of Net Assets

DECEMBER 31, 2007

Fund balances - General Fund	\$ 1,089,653
------------------------------	--------------

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - land and depletable assets	9,200
Add - construction in progress	55,422
Add - property and equipment	3,950,346
Add - infrastructure	7,404,265
Deduct - accumulated depreciation	(4,620,572)

Long-term accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.

(54,802)

Net assets of governmental activities	<u><u>\$ 7,833,512</u></u>
---------------------------------------	----------------------------

The accompanying notes are an integral part of these financial statements.

ARENAC COUNTY ROAD COMMISSION

STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/expenses			
Public works	\$ 2,633,160	\$ 693,364	\$ 3,326,524
Capital outlay	2,203,417	(2,121,157)	82,260
Total expenditures/expenses	<u>4,836,577</u>	<u>(1,427,793)</u>	<u>3,408,784</u>
Program revenue			
Charges for services	1,215,698	-	1,215,698
Operating grants and contributions			
State transportation funds	2,422,890	-	2,422,890
Capital grants and contributions			
Federal and state sources	<u>1,434,565</u>	<u>-</u>	<u>1,434,565</u>
Total program revenues	<u>5,073,153</u>	<u>-</u>	<u>5,073,153</u>
Net program revenue			<u>1,664,369</u>
General revenue			
Interest and rents	13,184	-	13,184
Proceeds / gain on sale of capital assets	<u>17,311</u>	<u>-</u>	<u>17,311</u>
Total general revenue	<u>30,495</u>	<u>-</u>	<u>30,495</u>
Total revenue	<u>5,103,648</u>		
Revenue over (under) expenditures	267,071	(267,071)	-
Changes in net assets	-	1,694,864	1,694,864
Fund balance/net assets:			
Beginning of the year	<u>822,582</u>	<u>5,316,066</u>	<u>6,138,648</u>
End of the year	<u><u>\$ 1,089,653</u></u>	<u><u>\$ 6,743,859</u></u>	<u><u>\$ 7,833,512</u></u>

The accompanying notes are an integral part of these financial statements.

ARENAC COUNTY ROAD COMMISSION
Reconciliation of the General Fund Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities

FOR THE YEAR ENDED DECEMBER 31, 2007

Revenues over (under) expenditures - General Fund	\$ 267,071
---	------------

Amounts reported for *governmental activities* in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their estimated
useful lives and reported as depreciation expense.

Add - capital outlay	57,509
Add - infrastructure purchases	2,063,649
Deduct - depreciation expense	(684,853)

The change in the accrued compensated absences is reported as an expense in the
statement of activities but does not require the use of current financial resources
and therefore is not reported as an expenditure in the General Fund.

(8,512)

Change in net assets of governmental activities

\$ 1,694,864

The accompanying notes are an integral part of these financial statements.

ARENAC COUNTY ROAD COMMISSION

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Permits and licenses	\$ -	\$ -	\$ 7,805	\$ 7,805
Federal sources				
Other - Bankhead Jones	-	-	4,181	4,181
Other- Safety	22,500	11,458	-	(11,458)
Other- Highway Research Planning & Construction	1,426,027	1,426,027	1,430,384	4,357
Other-Critical bridge	765,000	-	-	-
State sources				
Michigan Transportation funds				
Engineering	10,000	10,000	10,000	-
Allocation	2,431,294	2,413,631	2,412,890	(741)
Economic development funds				
Forest Road (E)	90,756	90,756	-	(90,756)
Critical Bridge	42,500	-	-	-
Contributions				
City and villages	-	-	38,417	38,417
Townships	470,073	229,283	213,909	(15,374)
Other	-	-	19,381	19,381
Charges for services				
State trunkline maintenance	618,841	683,667	691,352	7,685
State trunkline non-maintenance	-	229,360	241,998	12,638
Salvage sales	-	-	2,836	2,836
Interest and rentals	-	-	13,184	13,184
Other revenue				
Proceeds on equipment disposals	-	-	17,311	17,311
Other	31,000	95,906	-	(95,906)
Total revenue	<u>5,907,991</u>	<u>5,190,088</u>	<u>5,103,648</u>	<u>(86,440)</u>

ARENAC COUNTY ROAD COMMISSION

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2007

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Expenditures				
Primary Road				
Heavy maintenance	\$ 2,701,459	\$ 1,900,795	\$ 1,874,595	\$ 26,200
Maintenance	674,091	648,350	591,325	57,025
Local Road				
Heavy maintenance	1,149,041	290,097	299,402	(9,305)
Maintenance	584,372	963,615	985,609	(21,994)
Total maintenance	5,108,963	3,802,857	3,750,931	51,926
State trunkline maintenance	618,841	683,667	715,927	(32,260)
State trunkline non-maintenance	-	229,360	241,998	(12,638)
Equipment expense (net)	-	-	(6,021)	6,021
Administrative expense (net)	330,908	303,810	268,271	35,539
Interest expense	-	-	3,242	(3,242)
Capital outlay (net)	(159,250)	(115,655)	(185,446)	69,791
Other				
Billable maintenance service	15,000	40,000	47,675	(7,675)
Total expenditures	5,914,462	4,944,039	4,836,577	107,462
Net change in fund balance	(6,471)	246,049	267,071	21,022
Fund balances, beginning of year	822,582	822,582	822,582	-
Fund balances, end of year	<u>\$ 816,111</u>	<u>\$ 1,068,631</u>	<u>\$ 1,089,653</u>	<u>\$ 21,022</u>

The accompanying notes are an integral part of these financial statements.

ARENAC COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Arenac County Road Commission (the “Road Commission”) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

A. Reporting Entity

The *Arenac County Road Commission*, referred to as the Road Commission, is a discrete component unit of the County of Arenac, Michigan. The Road Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, reimbursements from the Department of State Highways for work done by the County on State trunklines, Federal Transportation funds, and contributions from other local units of government for work performed by the Road Commission.

The Road Commission is considered to be a component unit of the County because it is an entity for which the County is considered to be financially accountable.

The Road Commission, as a component unit of the County, is required by Public Act 51 of the State of Michigan, to have a separate audit performed of its operations. These audited financial statements have been prepared to meet this State requirement.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities* are supported by taxes, charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

A combined financial statement is provided for the general fund balance sheet and the statement of net assets and the general fund statement of revenues, expenditures and

ARENAC COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

changes in fund balance and the statement of activity. The general fund is considered to be a major fund for financial reporting purposes.

C. Measurement Focus Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund statement of revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and federal revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major *governmental* fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

ARENAC COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits

Cash and cash equivalents consist of cash on hand, deposits in demand and time deposit accounts, money market deposits, and certificates of deposits with original maturities of less than 90 days.

2. Inventory

Inventory, consisting of various operating parts, supplies and road material is stated at cost, as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

3. Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements. Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$1,000 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Fund.

Costs to construct or substantially rehabilitate major networks and subsystems of infrastructure assets (roads, bridges, traffic signals and similar items) were

ARENAC COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

capitalized and are reported as infrastructure capital assets in the Statement of Net Assets beginning in 2005.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

Buildings	30 to 50 years
Road equipment	5 to 8 years
Shop equipment	10 years
Office equipment	4 to 10 years
Engineering equipment	4 to 10 years
Infrastructure – bridges	12 to 50 years
Infrastructure – roads	5 to 30 years
Infrastructure – traffic signals	15 years

4. State Trunkline Adjustments

Adjustments to available operating funds resulting from audits of State Trunkline maintenance expenditures are recorded at the time cash settlement is made. The amount of the adjustments, if any, for the year ended December 31, 2007, has not been determined. Based on past experience, the Road Commission does not believe the adjustment will be a material amount.

5. Compensated Absences

Vacation and sick leave payable is reported in the General Fund only for matured amounts, for example, as a result of employee resignations and retirements. The remaining portion is recorded as an adjustment to the fund financial statements which results in the government-wide statements including the total liability. The Road Commission allows employees to accumulate vacation and sick leave in varying amounts, depending on time of service and other factors.

ARENAC COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Data

The Road Commission's procedures for establishing budgetary data are as follows:

The Superintendent submits a proposed budget for the upcoming year to the Board of County Road Commissioners. The budget is reviewed by the Board and a public hearing is held. Prior to the beginning of the year, the budget is adopted and placed in the Board minutes by the Road Commission.

The budget for the General Operating Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts shown in the financial statements consist of those amounts contained in the formal budget approved and amended by the Board.

The Road Commission adopts a budget for the general operating fund by means of an appropriations act, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts consistent with the way the books are maintained. The budget is prepared on the modified accrued basis of accounting.

Variances at the legal level of control are as disclosed on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

ARENAC COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

At year-end, the carrying amounts and bank balance of the Authority's deposits were as follows:

	<u>Carrying Amount</u>
Government-wide Financial Statement Captions:	
Cash	\$ 44,393
Investments	<u>534,476</u>
Total	<u><u>\$578,869</u></u>
Deposits:	
Cash on hand	\$ 300
Other demand accounts	44,093
Cash on deposit with Arenac County	434,476
Certificate of deposit with Arenac County	<u>100,000</u>
	<u><u>\$578,869</u></u>

This entire balance is considered to be deposits for disclosure purposes.

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments.

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks

ARENAC COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997

Interest Rate Risk. The Commission's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The Commission's investment policy does not have specific limits in excess of state law on investment credit risk. At year-end, the Commission had no investments and was therefore, not exposed to credit risk.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, The Commission's deposits may not be returned. State law does not require and the Commission does not have a policy for deposit custodial credit risk. At year-end, \$602,835 of the Commission's bank balance of \$702,835 was exposed to custodial credit risk because it was uninsured and uncollateralized. FDIC coverage cannot be determined for deposits with the County.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk. The Commission's investment policy does not have specific limits in excess of state law on concentration of credit risk. At year-end, The Commission had no investments and therefore, did not have any concentrations of credit risk.

ARENAC COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

B. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	<u>Balance January 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2007</u>
Capital assets not being depreciated				
Land and improvements	\$ 9,200	\$ -	\$ -	\$ 9,200
Construction in progress	<u>75,333</u>	<u>28,089</u>	<u>(48,000)</u>	<u>55,422</u>
Total capital assets not being depreciated	<u>84,533</u>	<u>28,089</u>	<u>(48,000)</u>	<u>64,622</u>
Capital assets being depreciated				
Buildings	380,683	-	-	380,683
Road equipment	3,169,389	28,745	(22,682)	3,175,452
Shop equipment	109,811	-	-	109,811
Engineer's equipment	43,447	-	-	43,447
Yard and storage equipment	137,103	-	-	137,103
Office equipment	103,175	675	-	103,850
Infrastructure – roads	4,762,247	2,111,649	-	6,873,896
Infrastructure – bridges	<u>530,369</u>	<u>-</u>	<u>-</u>	<u>530,369</u>
Total capital assets being depreciated	<u>9,236,224</u>	<u>2,141,069</u>	<u>(22,682)</u>	<u>11,354,611</u>
Less accumulated depreciation				
Buildings	(339,766)	(11,909)	-	(351,675)
Road equipment	(2,585,117)	(190,394)	22,682	(2,752,829)
Shop equipment	(98,799)	(1,076)	-	(99,875)
Engineers equipment	(39,757)	(1,449)	-	(41,206)
Yard and storage equipment	(129,509)	(5,396)	-	(134,905)
Office equipment	(75,715)	(3,935)	-	(79,650)
Infrastructure – roads	(649,701)	(457,078)	-	(1,106,779)
Infrastructure – bridges	<u>(40,037)</u>	<u>(13,616)</u>	<u>-</u>	<u>(53,653)</u>
Total accumulated depreciation	<u>(3,958,401)</u>	<u>(684,853)</u>	<u>22,682</u>	<u>(4,620,572)</u>
Net capital assets being depreciated	<u>5,277,823</u>	<u>1,456,216</u>	<u>-</u>	<u>6,734,039</u>
Total net capital assets	<u>\$5,362,356</u>	<u>\$1,484,305</u>	<u>\$(48,000)</u>	<u>\$6,798,661</u>

ARENAC COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS

C. Long-Term Debt

Long-term liability activity for the year ended December 31, 2007, was as follows:

	Balance January 1, 2007	Increases	(Decreases)	Balance December 31, 2007	Due Within One Year
Compensated absences	<u>\$46,290</u>	<u>\$ 9,848</u>	<u>\$(1,336)</u>	<u>\$54,802</u>	<u>\$ 2,792</u>

IV. OTHER INFORMATION

A. Defined Benefit Pension Plan

Pension Plan

The Road Commission's defined benefit pension plan provides retirement, disability benefits and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (888) 478-1919.

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate; the current rates as a percentage of annual covered payroll are 19.01% for the General unit, 21.51% for the Administrative unit, 59.69% for the Engineer / Manager unit and 6.91% for the Office Manager / Clerk unit. The administration unit of Road Commission employees is required to contribute 1% of their gross income to the plan. All other Road Commission employees are not required to contribute to the plan. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Road Commission in accordance with negotiated labor agreements.

ARENAC COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Annual Pension Cost

For the year ended December 31, 2007, the Road Commission's annual pension cost of \$197,919 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2005, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the latest actuarial valuation, was 30 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/2005	\$ 193,658	100%	\$ -
12/31/2006	183,012	100	-
12/31/2007	197,919	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/2004	\$2,582,806	\$4,895,630	\$2,312,824	53%	988,386	234%
12/31/2005	2,657,215	4,995,506	2,338,291	53	954,404	245
12/31/2006	2,748,400	5,152,698	2,404,298	53	934,508	257

ARENAC COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

B. Postemployment health benefits

In addition to the pension benefits described in Note IVA, the Road Commission provides post-retirement healthcare benefits, in accordance with State statutes, to employees retiring after February 9, 1994 and hired full-time before February 10, 2006. The Road Commission pays the cost of the single subscriber portion of the health insurance monthly premium until retirees qualify for Medicare, provided that the employees retire from all active employment commensurate with their retirement from the Commission, the retiree is eligible to receive a pension benefit under the Road Commission's pension plan, the retiree must have had at least ten continuous years of service with the Road Commission at the time of retirement, and finally the employee must be at least 55 years of age at the time of retirement. Such retirees may, at their own expense, include their dependents under coverage of the Road Commission's group health plan by paying the monthly premium cost for such dependent coverage. Currently, 2 retirees meet those eligibility requirements. During the year ended December 31, 2007, expenditures of \$15,255 were recognized for post-retirement healthcare.

The Governmental Accounting Standards Board has recently released Statement No. 45, Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree healthcare, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statement to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending December 31, 2009. Management is currently assessing the impact of this new accounting standard on the Road Commission's financial statement for future reporting periods.

C. Self-Insurance Pool

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (MCRCSIP). The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, truck line liability and an umbrella policy. The amount the Road Commission pays annually is determined by the Administrator of the Pool and is based on miles of roads, population and prior claim history of the Road Commission. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expense incurred per occasion. All other risk is transferred to the Pool.

ARENAC COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

D. Contingencies

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

* * * * *

OPERATING FUND SCHEDULES

ARENAC COUNTY ROAD COMMISSION

GENERAL OPERATING FUND SCHEDULE OF REVENUES BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2007

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Revenues				
Permits and licenses	\$ -	\$ -	\$ 7,805	\$ 7,805
Federal sources				
Other - bankhead jones	-	-	4,181	4,181
High Priority	1,430,384	-	-	1,430,384
State sources				
Michigan transportation funds				
Engineering	6,300	3,700	-	10,000
Allocation	1,521,023	891,867	-	2,412,890
Contributions from local units				
City and Village	-	-	38,417	38,417
Townships	-	213,909	-	213,909
Other governments	-	-	19,381	19,381
Charges for services				
State trunkline maintenance	-	-	691,352	691,352
State trunkline non-maintenance	-	-	241,998	241,998
Salvage sales	-	-	2,836	2,836
Interest and rentals	4,882	3,508	4,794	13,184
Other				
Gain on equipment disposals	-	-	17,311	17,311
Total revenues	<u>\$ 2,962,589</u>	<u>\$ 1,112,984</u>	<u>\$ 1,028,075</u>	<u>\$ 5,103,648</u>

ARENAC COUNTY ROAD COMMISSION

GENERAL OPERATING FUND SCHEDULE OF EXPENDITURES BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2007

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Expenditures				
Heavy maintenance				
Roads	\$ 1,857,022	\$ 282,271	\$ -	\$ 2,139,293
Structures	6,899	17,131	-	24,030
Safety Projects	10,674	-	-	10,674
Maintenance				
Roads	370,870	769,226	-	1,140,096
Winter maintenance	195,917	193,645	-	389,562
Traffic control	24,538	22,738	-	47,276
Total maintenance and construction	2,465,920	1,285,011	-	3,750,931
State trunkline maintenance	-	-	715,927	715,927
State trunkline non-maintenance	-	-	241,998	241,998
Equipment expense (net)	(1,408)	(2,934)	(1,679)	(6,021)
Administrative expense (net)	176,366	91,905	-	268,271
Interest expense	-	-	3,242	3,242
Capital outlay (net)	-	-	(185,446)	(185,446)
Other				
Billable maintenance service	-	-	47,675	47,675
Total expenditures	\$ 2,640,878	\$ 1,373,982	\$ 821,717	\$ 4,836,577

ARENAC COUNTY ROAD COMMISSION

GENERAL OPERATING FUND SCHEDULE OF CHANGES IN FUND BALANCE BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2007

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Total revenues	\$ 2,962,589	\$ 1,112,984	\$ 1,028,075	\$ 5,103,648
Total expenditures	<u>2,640,878</u>	<u>1,373,982</u>	<u>821,717</u>	<u>4,836,577</u>
Revenues over (under) expenditures	321,711	(260,998)	206,358	267,071
Other financing sources (uses)				
Intrafund transfers	<u>(260,998)</u>	<u>260,998</u>	<u>-</u>	<u>-</u>
Revenues and other sources over (under) expenditures and other (uses)	60,713	-	206,358	267,071
Fund balance, beginning of year	<u>304,636</u>	<u>218,859</u>	<u>299,087</u>	<u>822,582</u>
Fund balance, end of year	<u><u>\$ 365,349</u></u>	<u><u>\$ 218,859</u></u>	<u><u>\$ 505,445</u></u>	<u><u>\$ 1,089,653</u></u>



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

May 5, 2008

To the Board of County Road Commissioners
Arenac County Road Commission

We have audited the financial statements of the governmental activities and the major fund of the ***Arenac County Road Commission*** (the “Road Commission”) for the year ended December 31, 2007, and have issued our report thereon dated May 5, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated December 28, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on December 28, 2007.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 5, 2008.

Management Consultations with Other Independent Accountants

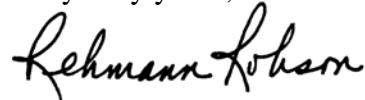
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the *Arenac County Road Commission* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson", written in a cursive style.

Arenac County Road Commission

Communication of Significant Deficiencies

For the Year Ended December 31, 2007

In planning and performing our audit of the financial statements of the Arenac County Road Commission (the “Road Commission”) as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Road Commission’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Road Commission’s internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control. We believe that a certain deficiency, as described below, constitutes a material weakness.

Arenac County Road Commission
Communication of Significant Deficiencies
For the Year Ended December 31, 2007

Material Weaknesses

1. Preparation of Financial Statements in Accordance with GAAP

Criteria:	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
Condition/Finding:	As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.
Cause:	This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
Effect:	As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
Recommendation/Comment:	The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.
View of Responsible Officials:	The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Arenac County Road Commission
Communication of Significant Deficiencies
For the Year Ended December 31, 2007

Other Matters

1. **Documenting Review and Approval of Bank Reconciliations**

Criteria:	Effective internal control procedures should provide a clear evidence trail of who performed what procedure and when.
Condition/Finding:	The Road Commission is diligent in completing its bank reconciliations on a timely basis. However, an employee independent of the bank reconciliation preparation is not reviewing the bank reconciliation. Also, neither the preparer nor reviewer of the bank reconciliations initial and date these schedules to document who and when these internal control procedures were performed.
Cause:	Probably this has never been presented as an issue or enhancement opportunity in the past.
Effect:	For the review process, it can certainly be argued that it never happened if there is no proof.
Recommendation/Comment:	We recommend that the Road Commission Clerk review the bank reconciliations prepared by the other Road Commission employees. The preparer and reviewer of each monthly bank reconciliation should initial and date the document.
View of Responsible Officials:	The Road Commission Clerk indicated that the Office Staff will implement these changes immediately.

Arenac County Road Commission
Communication of Significant Deficiencies
For the Year Ended December 31, 2007

2. Password and Access Policy

Criteria:	Limiting access to key financial data through strong password and access policies is a key IT control.
Condition:	The Road Commission does not have a strong set of password controls that limit access to company financial information. In particular, computer passwords at the network and financial accounting software level are not changed on a regular basis, users vacating work areas are not locking their workstations, and passwords used are not complex.
Cause:	This condition is a result of the Road Commission's limited resources to employ an IT staff to suggest these policies.
Effect:	As a result of this condition, the Road Commission is exposed to an increased risk of access to computer files by unauthorized personnel.
Recommendation/Comment	We recommend that the Road Commission institute a policy that requires passwords to be changed on a regular basis. For the size and complexity of the Road Commission, once every year would be adequate. The Road Commission may also wish to investigate building into its software automatic expiration of passwords to ensure that they are changed periodically. In addition, we recommend that the network and accounting system be set to force complex passwords that are at least eight characters long with a combination of letters, numbers and special characters. Finally, we recommend the Road Commission require all PC users to lock their workstations, when they are unattended.
View of Responsible Officials:	The Road Commission understands the increased risk due to the lack of strong password and access policies. As the cost of implementing these recommendations is minimal, the Road Commission will implement the recommendations.

Arenac County Road Commission
Communication of Significant Deficiencies
For the Year Ended December 31, 2007

3. *Lack of Segregation of Duties*

Criteria:	Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Road Commission's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefit to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept given the government's unique circumstances.
Condition:	As is the case with many organizations of similar size, the Road Commission lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. These include an individual authorized to setup vendors and process accounts payable, setup new employees and process payroll information, and initiate manual journal entries and post them. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.
Cause:	This condition is a result of the Road Commission's limited resources, and the small size of its accounting staff.
Effect:	As a result of this condition, the Road Commission is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely basis.
Recommendation/Comment	In order to minimize the risk from a lack of segregation of duties in the payroll system, we recommend that the Road Commission remove the payroll clerk from the list of authorized signers on the Road Commission payroll bank account and the Superintendent/Manager be the second signature on the account.
View of Responsible Officials:	The Road Commission understands the increased risk due to the inherent lack of segregation of duties and has concluded that the cost of implementing the segregation of duties does not warrant the benefit of the lower risk obtained. However, management

Arenac County Road Commission
Communication of Significant Deficiencies
For the Year Ended December 31, 2007

will maintain a heightened awareness and continually review the mitigating controls over these areas and will change the second authorized signature on the payroll bank account from the payroll clerk to the Superintendent/Manager.

* * * * *

Arenac County Road Commission
Schedule of Adjustments Passed (SOAP)
For the December 31, 2007 Audit

In accordance with the provisions of SAS 89, *Audit Adjustments*, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. Also in accordance with SAS 89, we are providing this schedule to both management and the audit committee to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	Liabilities	Beginning Fund Balance	Revenue	Expenses/ Expenditures
General Fund/Governmental Activities					
Unposted Accounts Payable invoice to Rowe Inc.	-	(4,375)	-	-	(4,375)